



Alliance of Western Milk Producers

Representing California's dairy cooperatives and their producer-owners since 1991

1225 H Street, Suite 102 • Sacramento, California 95814 • 916-447-9941

April 1, 2005

Kelly Krug, Director
Division of Marketing Services
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Subject: Alternative Class 1 Proposal of May 3 and May 6 hearings

Dear Mr. Krug:

In its call of the Class 1 hearing, in response to the Dairy Institute of California's petition to make changes to the Class 1 pricing formulas, the Department referenced a number of Food & Agriculture code sections. However, of all those code sections referenced only one, Section 62062.1, gives the Department specific direction.

“Any designation of a class 1 price by any method or formula that is used to develop class 1 prices paid to producers in the various marketing areas, shall provide, on a calendar year basis, a statewide weighted average minimum price level for a hundred weight of milk testing 3.5 fat and 8.7 solids not fat that is in reasonable relationship with minimum class 1 milk prices paid to producers in contiguous states. If the statewide weighted average class 1 prices paid to producers are not in a reasonable relationship with the class 1 prices paid to producers in contiguous states, the secretary shall immediately hold a hearing to consider adjustments to the class 1 prices.”
(Emphasis added)

The Alliance firmly believes that the data clearly shows that California's Class 1 farmer prices for milk testing 3.5% milkfat and 8.7% solids-not-fat were not in a reasonable relationship with the Class 1 producer price in contiguous states for calendar year 2004. The average Northern California Class 1 price in 2004 was \$16.43 per hundredweight. That compares to average Class 1 prices in Medford and Portland, Oregon and Reno, Nevada of \$16.88, a 45 cent difference. In Southern California, the 2004 average Class 1 price was \$16.70 compared to \$17.33 (a 63-cent difference) in Phoenix and \$16.98 in Yuma, Arizona, a 28-cent difference.

Based on these facts, the Alliance proposes that the following adjustments be made to the Class 1 price formulas for Northern and Southern California. In Northern California, increase the Commodity Reference Price (CRP) adjuster used in the calculation of the Class 1 solids not fat and fluid carrier prices from the current value of +\$0.464 per hundredweight to a new value of +\$0.739 per hundredweight. In addition, the Alliance proposes that the fluid carrier adjustment be changed from -\$0.0031 to -\$0.0014.

In Southern California, the Alliance proposes increasing the Commodity Reference Price (CRP)

adjuster used in the calculation of the Class 1 solids not fat and fluid carrier prices from the current value of +\$0.464 per hundredweight to a new value of +\$0.739 per hundredweight.

With these proposed adjustments, California's Class 1 producer hundredweight price will, on average for calendar year 2004, be in a more reasonable relationship to Class 1 producer prices in contiguous states as required by Section 62062.1.

Respectfully submitted,



Jim Tillison, CEO

cc: Alliance Board of Directors

Dave Ikari, Dairy Branch Manager

Southern California Stabilization and Marketing Plan (Plan 59), Proposed Changes:

Article III

Class Prices

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

(A) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

(1) For all milk fat, not less than the price per pound computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less a butter adjuster of ten cents (\$0.10), and the result multiplied by a yield factor of 1.2.

(2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus ~~forty-six and four-tenths cents (\$0.464)~~ ***seventy three and nine tenth cents (\$0.739)***, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.76 and divided by 8.7.

(3) For all fluid carrier, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus ~~forty-six and four-tenths cents (\$0.464)~~ ***seventy three and nine tenth cents (\$0.739)***, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8.

Northern California Stabilization and Marketing Plan (Plan 44), Proposed Changes:

Article III

Class Prices

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

(B) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

(1) For all milk fat, not less than the price per pound computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less a butter adjuster of ten cents (\$0.10), and the result multiplied by a yield factor of 1.2.

(2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus ~~forty-six and four-tenths cents (\$0.464)~~ ***seventy three and nine tenth cents (\$0.739)***, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.76 and divided by 8.7.

(3) For all fluid carrier, not less than the price per pound computed by the formula using the

Commodity Reference Price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus ~~forty-six and four-tenths cents (\$0.464)~~ ***seventy three and nine tenth cents (\$0.739)***, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8, and then ~~\$0.0031~~ ***\$0.0014*** per pound subtracted from the result.